



**City of Morrill
Morrill, Kansas**

**Report on the Audit of the Basic Financial Statements
As of and for the Year Ended
December 31, 2012**

City of Morrill
Morrill, Kansas
For the Year Ended
December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Leon Huning
Members of the City Council
City of Morrill, Kansas
Morrill, Kansas

We have audited the accompanying fund summary statements of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Morrill, Kansas as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide (KMAAG)* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide (KMAAG)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Municipality to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

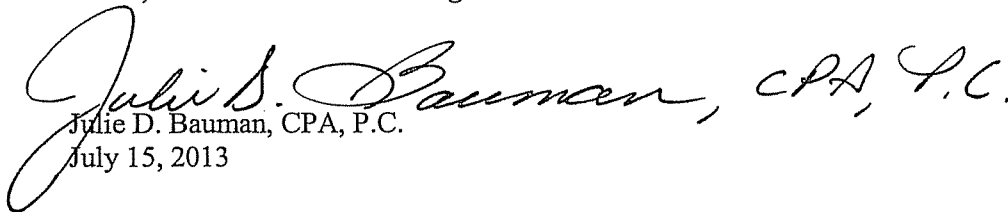
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Morrill, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the aggregate cash and unencumbered cash balances of the City of Morrill, Kansas, as of December 31, 2012, and the aggregate cash receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts and expenditures (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and expenditures-agency funds are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.


Julie D. Bauman, CPA, P.C.
July 15, 2013

BASIC FINANCIAL STATEMENTS

City of Morrill, Kansas
Summary Statement of Receipts and Expenditures
Regulatory Basis
Year Ended December 31, 2012

	Beginning Cash <u>Balance</u>	<u>Cash Receipts</u>	Cash <u>Disbursements</u>	Ending Cash <u>Balance</u>
General Operating	\$ 5,575	\$ 69,194	\$ 65,082	\$ 9,687
Special Revenue Funds:				
Special Street	12,873	5,959	12,633	6,199
Morrill Fire Department	29,879	27,625	17,774	39,730
Employee Benefits	2,285	18,147	15,047	5,385
Equipment Reserve	2,576	13	-	2,589
Capital Outlay Fund	18,650	12,000	15,377	15,273
Enterprise Funds:				
Water Utility Funds:				
Water Utility	18,564	57,643	52,681	23,526
Water Deposits	617	250	332	535
Electric Utility Fund:				
Electric Utility	36,429	228,398	209,882	54,945
Electric Deposit	1,450	500	800	1,150
Sewer Utility Fund	68,379	18,925	9,495	77,809
Trash Collection	7,319	10,865	10,638	7,546
Agency Funds:				
Sales Tax	3,977	-	3,977	-
Federal Withholding	551	-	551	-
Kansas Withholding	133	-	133	-
Petty Cash	116	1,100	1,011	205
Youth Fund	848	5	-	853
Total Reporting Entity	<u>\$ 210,221</u>	<u>\$ 450,624</u>	<u>\$ 415,413</u>	<u>\$ 245,432</u>
Transfers		<u>-</u>	<u>-</u>	
Net Receipts and Disbursements		<u>\$ 450,624</u>	<u>\$ 415,413</u>	
Composition of Cash:				
Cash at Morrill & Janes Bank				\$ 156,264
Certificates of Deposits				89,118
Cash on Hand				50
Under Deposit				-
				<u>\$ 245,432</u>

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Summary of Expenditures - Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	Cash <u>Disbursements</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
General Fund	\$ 65,082	\$ 75,000	\$ 9,918
Special Revenue Funds:			
Speical Street	12,633	15,000	2,367
Morrill Fire Department	17,774	28,000	10,226
Employee Benefits	15,047	20,000	4,953
Enterprise Funds:			
Water Utility	52,681	85,000	32,319
Electric Utility	209,882	218,000	8,118
Sewer Fund	9,495	50,000	40,505
Trash Fund	10,638	14,000	3,362
Total Budget Funds	<u>\$ 393,232</u>	<u>\$ 505,000</u>	<u>\$ 111,768</u>

See notes to financial statements.

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

City of Morrill, Kansas
General Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Ad Valorem	\$ 13,903	\$ 13,662	\$ 13,650	51 \$ 12
Local Compensating Use Tax	2,886	2,654	3,000	(346)
Redemptions	677	637	3,000	(2,363)
Delinquent Tax	65	51	4,000	(3,949)
Motor Vehicle Tax	2,486	2,351	2,440	(89)
Recreational Vehicle Tax	80	58	70	(12)
Local Retail Sales Tax	16,000	17,144	14,070	3,074
KPL Franchise Fees	5,014	4,194	4,100	94
Dog Tags	26	32	84	(52)
Miscellaneous	9,885	16,877	1,930	14,947
Insurance proceeds	917	1,216	-	1,216
Embarq Franchise	100	100	-	100
Parks and Recreation	800	900	-	900
Federal/State Withholding Tax	-	9,318	4,000	5,318
Transfer from Noxious Weed	-	-	-	-
Total Cash Receipts	<u>52,839</u>	<u>69,194</u>	<u>50,344</u>	<u>18,850</u>
CASH DISBURSEMENTS:				
Adminstration	16,728	20,900	31,000	10,100
Police Department	498	413	1,000	587
Fire Department	7,000	7,000	7,000	-
Parks Department	7,757	4,503	2,000	(2,503)
Street Lighting Department	831	781	1,000	219
Highway Department	20,350	15,390	19,000	3,610
Cemetary Department	4,500	4,000	4,000	-
Federal Withholding	-	6,658	5,000	(1,658)
Kansas Withholding	-	2,437	2,000	(437)
Transfer to Capital Outlay	3,000	3,000	3,000	-
Total Cash Disbursements	<u>60,664</u>	<u>65,082</u>	<u>75,000</u>	<u>9,918</u>
Receipts over (under) disbursements	(7,825)	4,112		
CASH, BEGINNING BALANCE	<u>13,400</u>	<u>5,575</u>		
CASH, ENDING BALANCE	<u>\$ 5,575</u>	<u>9,687</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Fire Department Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	201 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
City Support	\$ 11,739	15,525	4,996	10,529
Kansas Gas Service	1,363	1,356	-	1,356
Support Other	1,479	10,744	1,000	9,744
Total Cash Receipts	<u>\$ 14,581</u>	<u>\$ 27,625</u>	<u>\$ 5,996</u>	<u>\$ 21,629</u>
CASH DISBURSEMENTS:				
Vehicle Expense	12,309	5,646	4,000	(1,646)
Mileage	1,691	1,503	3,000	1,497
Utilities	2,308	2,712	3,000	288
Equipment Maintenance	940	3,814	8,000	4,186
Miscellaneous	157	3,744	-	(3,744)
Building Maintenance	367	156	6,000	5,844
Supplies	934	199	4,000	3,801
Capital Outlay	-	-	-	-
Total Cash Disbursements	<u>18,706</u>	<u>17,774</u>	<u>28,000</u>	<u>10,226</u>
Receipts over (under) disbursements	(4,125)	9,851		
CASH, BEGINNING BALANCE	<u>34,004</u>	<u>29,879</u>		
CASH, ENDING BALANCE	<u>\$ 29,879</u>	<u>\$ 39,730</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Special Street
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Special Street and Highway Tax	\$ 6,183	5,959	6,212	(253)
Total Cash Receipts	<u>\$ 6,183</u>	<u>\$ 5,959</u>	<u>\$ 6,212</u>	<u>\$ (253)</u>
CASH DISBURSEMENTS:				
Street Materials	<u>12,098</u>	<u>12,633</u>	<u>15,000</u>	<u>2,367</u>
Total Cash Disbursements	<u>12,098</u>	<u>12,633</u>	<u>\$ 15,000</u>	<u>\$ 2,367</u>
Receipts over (under) disbursements	(5,915)	\$ (6,674)		
CASH, BEGINNING BALANCE	<u>18,788</u>	<u>12,873</u>		
CASH, ENDING BALANCE	<u>\$ 12,873</u>	<u>\$ 6,199</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Employee Benefit
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Ad Valorem	\$ 8,714	\$ 8,571	\$ 9,300	\$ (729)
Delinquent Tax	43	35	-	35
Motor Vehicle Tax	1,655	1,850	1,657	193
Recreational Vehicle Tax	-	-	47	(47)
Employee Contributions	7,277	7,420	7,000	420
16/20M Vehicle Tax	-	-	76	(76)
Redemption Distribution	245	271	200	71
Transfer from General Fund	-	-	-	-
Total Cash Receipts	<u>\$ 17,934</u>	<u>\$ 18,147</u>	<u>\$ 18,280</u>	<u>\$ (133)</u>
CASH DISBURSEMENTS:				
Social Security	10,338	8,191	10,000	1,809
Retirement	6,591	6,795	10,000	3,205
Unemployment	64	61	-	(61)
Total Cash Disbursements	<u>16,993</u>	<u>15,047</u>	<u>20,000</u>	<u>4,953</u>
Receipts over (under) disbursements	941	3,100		
CASH, BEGINNING BALANCE	<u>1,344</u>	<u>2,285</u>		
CASH, ENDING BALANCE	<u>\$ 2,285</u>	<u>\$ 5,385</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Water Utility Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ending December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Water Sales	\$ 57,829	\$ 56,965	\$ 75,389	\$ (18,424)
Reconnect Fees	730	410	200	210
Interest	-	-	-	-
Miscellaneous	370	99	-	99
Water Protection Fees	170	168	300	(132)
Total Cash Receipts	<u>\$ 59,099</u>	<u>\$ 57,642</u>	<u>\$ 75,889</u>	<u>\$ (18,247)</u>
CASH DISBURSEMENTS:				
Water Purchased	21,693	20,647	30,000	9,353
Personnel Services	6,656	7,648	9,000	1,352
Contractual Services	11,359	5,328	6,000	672
Commodities	7,052	15,216	36,000	20,784
Transfer to Capital Outlay	3,000	3,000	3,000	-
Miscellaneous	1,370	841	1,000	159
Water Tower	-	-	-	-
Total Cash Disbursements	<u>51,130</u>	<u>52,680</u>	<u>85,000</u>	<u>32,320</u>
Receipts over (under) disbursements	7,969	4,962		
CASH, BEGINNING BALANCE	<u>10,595</u>	<u>18,564</u>		
CASH, ENDING BALANCE	<u>\$ 18,564</u>	<u>\$ 23,526</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Electric Utility Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Sales	\$ 218,416	\$ 223,109	\$ 190,446	\$ 32,663
Reconnect Fees	840	330	4,000	(3,670)
Material Sales	8,754	682	16,000	(15,318)
Miscellaneous	4,784	-	100	(100)
Transfers	400	4,277	4,000	277
Total Cash Receipts	<u>\$ 233,194</u>	<u>\$ 228,398</u>	<u>\$ 214,546</u>	<u>\$ 13,852</u>
CASH DISBURSEMENTS:				
Capital Outlay-Construction of Lines	737	23,140	25,000	1,860
Electrical Energy Purchased	105,570	99,753	91,500	(8,253)
Personnel Services	42,633	38,614	31,000	(7,614)
Contractual Services	1,313	1,206	1,500	294
Commodities	41,414	12,467	23,000	10,533
Insurance	16,184	17,240	20,000	2,760
Sales Tax	-	14,462	12,000	(2,462)
Transfer to Capital Outlay	3,000	3,000	14,000	11,000
Total Cash Disbursements	<u>210,851</u>	<u>\$ 209,882</u>	<u>\$ 218,000</u>	<u>\$ 8,118</u>
Receipts over (under) disbursements	22,343	18,516		
CASH, BEGINNING BALANCE	<u>14,086</u>	<u>36,429</u>		
CASH, ENDING BALANCE	<u>\$ 36,429</u>	<u>\$ 54,945</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Sewer Utility Fund
Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
Services	\$ 19,213	\$ 18,925	\$ 14,000	\$ 4,925
Total Cash Receipts	<u>\$ 19,213</u>	<u>\$ 18,925</u>	<u>\$ 14,000</u>	<u>\$ 4,925</u>
CASH DISBURSEMENTS:				
Personnel Services	-	-	8,000	8,000
Contractual Services	5,497	5,472	25,000	19,528
Commodities	353	1,023	12,000	10,977
Transfer to Capital Outlay	3,000	3,000	5,000	2,000
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Cash Disbursements	<u>8,850</u>	<u>9,495</u>	<u>50,000</u>	<u>40,505</u>
Receipts over (under) disbursements	10,363	9,430		
CASH, BEGINNING BALANCE	<u>58,016</u>	<u>68,379</u>		
CASH, ENDING BALANCE	<u>\$ 68,379</u>	<u>\$ 77,809</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Trash Collection
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual	2012 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS:				
User Fees	\$ 11,374	\$ 10,865	\$ 14,000	\$ (3,135)
Total Cash Receipts	<u>\$ 11,374</u>	<u>\$ 10,865</u>	<u>\$ 14,000</u>	<u>\$ (3,135)</u>
CASH DISBURSEMENTS:				
Contractual Services	<u>11,006</u>	<u>10,638</u>	<u>14,000</u>	<u>3,362</u>
Total Cash Disbursements	<u>11,006</u>	<u>10,638</u>	<u>\$ 14,000</u>	<u>\$ 3,362</u>
Receipts over (under) disbursements	368	227		
CASH, BEGINNING BALANCE	<u>6,951</u>	<u>7,319</u>		
CASH, ENDING BALANCE	<u>\$ 7,319</u>	<u>\$ 7,546</u>		

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Capital Outlay Fund
Schedule of Receipts and Expenditures
Regulatory Basis
Year Ended December 31, 2012

	2011 Actual	2012 Actual
CASH RECEIPTS:		
Transfer from General Fund	\$ 3,000	\$ 3,000
Transfer from Water Fund	3,000	3,000
Transfer from Sewer Fund	3,000	3,000
Transfer from Electric Fund	3,000	3,000
Donation	600	-
	<u> </u>	<u> </u>
Total Cash Receipts	<u>\$ 12,600</u>	<u>\$ 12,000</u>
CASH DISBURSEMENTS:		
Infrastructure	<u>8,950</u>	<u>15,377</u>
	<u> </u>	<u> </u>
Total Cash Disbursements	<u>8,950</u>	<u>15,377</u>
Receipts over (under) disbursements	3,650	(3,377)
CASH, BEGINNING BALANCE	<u>15,000</u>	<u>18,650</u>
CASH, ENDING BALANCE	<u><u>\$ 18,650</u></u>	<u><u>\$ 15,273</u></u>

The accompanying notes are an integral part of these financial statements.

City of Morrill, Kansas
Trust and Agency Funds
Schedule of Receipts and Expenditures
Regulatory Basis
Year Ended December 31, 2012

	<u>Sales Tax</u>	<u>Federal Withholding Tax</u>	<u>Kansas Withholding Tax</u>	<u>Petty Cash</u>	<u>Youth Fund</u>
CASH RECEIPTS:					
Cash Receipts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100</u>	<u>\$ 5</u>
Total Cash Receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,100</u>	<u>5</u>
CASH DISBURSEMENTS:					
Disbursements	<u>3,977</u>	<u>551</u>	<u>133</u>	<u>1,011</u>	<u>-</u>
Total Cash Disbursement	<u>3,977</u>	<u>551</u>	<u>133</u>	<u>1,011</u>	<u>-</u>
CASH, BEGINNING BALANCE	<u>3,977</u>	<u>551</u>	<u>133</u>	<u>116</u>	<u>848</u>
CASH, ENDING BALANCE	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 205</u></u>	<u><u>\$ 853</u></u>

The accompanying notes are an integral part of these financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2012

Note 1 – Summary of Significant Accounting Policies

A. Basis of Presentation – Fund Accounting -

The accounts of the City of Morrill, Kansas are organized on the basis of funds, each of which is considered a separate accounting entity.

The following types of funds comprise the financial activities of the City for 2012.

Governmental funds:

General fund – to account for all unrestricted resources except those required to be accounted for in other funds or account groups.

Special revenue funds – to account for the proceeds of specific revenue sources or to finance specified activities as required by law or administrative regulation.

Capital project funds – to account for major capital expenditures not financed by other funds.

Proprietary funds:

Enterprise funds – to account for operations that are financed and operated in a manner similar to business enterprises-where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges-or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary funds:

Agency funds – to account for assets held by the governmental entity as trustee or agent for others.

B. Basis of Accounting

These financial statements are presented on a basis of accounting, which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

The municipality has obtained a GAAP waiver from the State of Kansas, which thereby requires this type of special reporting.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2012

C. Departure from Generally Accepted Accounting Principles

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

D. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2012.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
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All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds.

Spending in funds, which are not subject to the legal annual operating budget requirement, is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

E. Reporting Entity

This report includes all of the services provided by the City of Morrill to residents and businesses within its boundaries and includes all of its component units.

Note 2 – Deposits

At year-end, the carrying amount of the City's deposits was \$156,314 and the bank balance was \$156,314. The difference between the carrying amount and the bank balance is December interest earned. The bank balance is covered by FDIC insurance and collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name and insurance.

Composition of Cash and Investments

	<u>Amount</u>	
Morrill and Janes Bank		
Checking	\$	152,617
Petty Cash		205
Special Savings		2,589
Youth Fund		853
Cash on Hand		50
Total	\$	<u>156,314</u>
	Maturity Date	Rate
Certificate of Deposit	1/16/2013	0.50
Total Cash and Investments		\$ <u>89,118</u>
		<u>\$ 245,432</u>

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
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Note 3 – Taxes

Property Taxes – The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser annually determines assessed valuations and the County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the county.

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the following year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. One-half of the property taxes is due December 20, prior to the fiscal year for which they are budgeted, and the second half is due the following May 10.

Motor Vehicle Taxes – Since 1981 most motor vehicles became subject to a special tax paid at the time of registration instead of the traditional property tax. In 1995, the legislature enacted a five-year phase down in the assessment rate on motor vehicles for 30% to 20% of market value.

In 2012, the City received the following from county and state taxes:

	<u>General Fund</u>	<u>Street Fund</u>	<u>Employee Benefit Fund</u>
Property Taxes	\$ 13,662	\$ -	\$ 8,571
Motor Vehicle Taxes	2,654	-	1,850
Sales and Use Taxes	17,144	-	-
Other Vehicle Taxes	50	-	-
State Highway Aid	-	5,959	-
	<u>\$ 33,510</u>	<u>\$ 5,959</u>	<u>\$ 10,421</u>

The assessed valuation in 2012 was \$1,156,967, which was used to determine the mill levy for 2012. The mill levy was 11.798 for 2012.

Note 4 – Utilities

The City provides water, sewer, electric and solid waste services. The City reads the meters at the 18th of each month and mails their utility bills on the 20th day of each month for the previous month's service. The utility bills are due the tenth day of the month. Payments received after this date, are subjected to a late charge of 10.0% on the unpaid bill. If bills are not paid by the tenth of the following month a disconnect notice is sent and service will be disconnected on the twenty-first.

The City requires that, at the time of making application for utility service, the property owner or customer shall make a cash deposit in the amount of \$50 for water service and \$100 for electric service, set by the governing body to secure payment of accrued bills or bills due on discontinuance of service.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
December 31, 2012

Note 4 – Utilities (continued)

The amount due to the City for utility services as of December 31, 2012 was \$29,443, of which \$24,115 is related to the December billings (due January 10, 2013). The amount due to customers for utility deposits as of December 31, 2012 was \$2,375.

Utility Rates as of December 31, 2011 are as follows:

Water Rates:

Minimum charge	\$26.10 for residents inside city limits includes 1,000 gallons
Minimum charge	\$30.72 for residents outside city limits includes 1,000 gallons
Next 1,000 gallons	\$4.64 per 1,000 gallons, inside the City limits
	\$4.64 per 1,000 gallons, outside the City limits

Sewer Rates:

Flat Rate	\$15.00 for residential
Flat Rate	\$15.00 for commercial

Solid Waste:

Monthly charge	\$ 9.25 for residential
Monthly charge	\$18.40 for commercial

Electric Rates:

Monthly charge	\$ 9.00 for residential
Monthly charge	\$11.00 for commercial
All customers	\$.015 per KWHR plus Energy Cost Adjustment

Note 5 – Pension Plan

The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737. The payroll for employees covered by the System for 2012 was \$56,174, and the City's total payroll for 2012 was \$59,865.

Covered employees are required by state statute to contribute 4% of their salary to the System. The City is required by statute to contribute 7.34% using the full funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirement for the year ended December 31, 2012 was \$6,370 which consisted of \$2,247 from employees and \$4,123 from the City.

These notes are an integral part of the accompanying financial statements.

City of Morrill
Notes to the Financial Statements
For the Year Ended
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Note 6 – Compliance with Kansas Law

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the City. There were no apparent statutory violations during the year ended December 2012.

Note 7 – Water Purchase Contract

The City purchases its water from the City of Sabetha, Kansas at a rate of \$3.33 per 1,000 gallons the original contract is dated August 29, 1991 and is subject to increases after each audit of the Sabetha water utility. The City sold 5,364,600 gallons of water to customers and purchased 5,530,000 gallons from the City of Sabetha, the water loss percentage was 5% in 2012.

Note 8 – Waste Management Contract

The City contracts with Larry's Services for refuse collection at a rate of \$9.25 per residential customer and \$18.40 per commercial customer. The City bills for the services and receives a 3% discount for the billing processing. All bulk item pickups are billed directly by Larry's Services to the customer. The contract was initiated on September 1, 2003 and is extended on an annual basis.

Note 9 – Electrical Service Contract

The City purchases power from Westar Energy at a rate of \$.1712 plus variable charges per kilowatt hour. The contract is effective August 2, 2010 and has a term of twenty years. The City sold 1,158,195 kilowatt hours to customers and purchased 1,371,626 kilowatt hours from Westar Energy, the electricity loss percentage was 16% in 2012.

City of Morrill
Notes to the Financial Statements
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Note 10 – Compensated Absences

The City vacation and sick policies are as follows:

Vacation Leave:

<u>Years of Service</u>	<u>Number of days received on anniversary date</u>
0-1	5
1-10	10

After ten years of service the employee earns one extra day of vacation for each year over ten years the maximum accrual is 120 hours.

Sick Leave:

Employees earn 40 hours of sick time per year and can be carried over for two additional years. The maximum accumulated sick leave shall not exceed 120 hours.

Note 11 – Infrastructure

The City has elected not to comply with Government Accounting Standards Board 34 (GASB 34), which requires Cities to account for their infrastructure.

Note 12 – Concentrations

The City is engaged in the sale of water, trash, electric and sewer services to customers located in the City. The City grants credit to those customers and requires no collateral but does require a service deposit.

Note 13 – Risk Management

The City has various risks including general liabilities, employees injured while working, automobile, etc. The City insures these risks through various insurance policies.

Note 14 – Subsequent Events

Management has evaluated subsequent events through July 15, 2012, the date the financial statements were available to be issued.

These notes are an integral part of the accompanying financial statements.